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SENSITIVE
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DEPT PASS USTR FOR AGAMA
TREASURY FOR TONY IERONIMO, ADAM BARCAN, SOLOMAN AND
RITTERHOFF
S/CIEA FOR DAVID GOLDWYN AND MICHAEL SULLIVAN
EEB/ESC FOR DOUG HENGEL

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SUBJECT: CENTRAL BANK OF NIGERIA DISCUSSES GROWTH, EXCHANGE
RATES, AND FOREX RESERVES

SUMMARY

¶1. (SBU) The Central Bank of Nigeria (CBN) Research Director spoke to Embassy about the impact of the global economic crisis, GDP growth, the naira-to-dollar exchange rate, foreign exchange reserves, oil production, and the impact of the recent CBN bank audits. GDP growth is expected to decline from 6.4 percent in 2008 to 6.0 percent in 2009. The CBN defended the naira-to-dollar exchange rate for longer than it should have in late 2008, but the rate is now at the appropriate level. Total foreign exchange reserves have declined from a peak of \$63 billion in August 2008 to \$41 billion today, and are expected to decline to \$40 billion at the end of 2009. The Excess Crude Account has declined from \$20 billion at the beginning of the year to \$10 billion today. Oil production has increased from 1.6 million barrels per day last summer to 1.8 million barrels per day today.
END SUMMARY.

ECONOMIC CRISIS, OIL PRICES, AND THE EXCHANGE RATE

¶2. (SBU) Central Bank of Nigeria (CBN) Research Department Director Charles N. O. Mordi met with Economic Counselor on October 22. Mordi was accompanied by his deputy directors for macroeconomic modeling, external sector, real sector, fiscal sector, and financial analysis. Mordi reviewed the current state of the economy, noting that real gross domestic product growth is expected to decline from 6.4 percent in 2008 to 6.0 percent in 2009. This decline is the result of both the global economic crisis which led to a decline in international oil prices, and political unrest in the Niger Delta which caused a decline in oil production. The decline in growth would have been greater had it not been for the GON's decision to maintain government spending by releasing funds from the Excess Crude Account.

¶3. (SBU) Asked if there was a long-term relationship between international oil prices and the naira-to-dollar exchange rate, Mordi said, "there is, but the exchange rate is a sensitive domestic political issue. There is always a difference of opinion between importers who lobby for a higher exchange rate and domestic manufacturers and exporters who argue for a lower one. We are also mindful that we need to promote growth and employment, so we do not allow the exchange rate to become too overvalued." Asked about the sudden devaluation of the naira at the end of 2008, Mordi responded that, "We were slow to react after the onset of the global economic crisis, but we eventually decided that we

could not sustain the former exchange rate of 117 naira to the dollar. Once we decided to let go, the rate dropped significantly within the first 24 hours." He noted that today there is only a small difference between the official and unofficial exchange rates, which he saw as evidence that the exchange rate is now at the appropriate level.

FOREX RESERVES, THE EXCESS CRUDE ACCOUNT, AND OIL PRODUCTION

14. (SBU) Mordi confirmed that the combination of lower oil prices and lower oil production had contributed to a substantial decline in Nigeria's total foreign exchange reserves. This includes the GON's share of those reserves, which constitutes the Excess Crude Account that was established during the Obasanjo administration in 2003. Total reserves declined from \$63 billion in August 2008 to \$52 billion at the end of 2008 and \$41 billion today. He said the CBN had projected that total reserves would decline to \$39 billion by the end of 2009. However, the recent recovery in oil prices and the GON's amnesty program in the Niger Delta have caused the CBN to revise its year-end 2009 projection to \$40 billion.

15. (SBU) Asked about the status of the Excess Crude Account, Mordi said the account had declined precipitously from \$20 billion at the beginning of the year to \$10 billion today. The decline was the result of the GON's decision to release \$5 billion to finance the expansion of the power sector, \$2.1 billion that was distributed among the three tiers of government in August 2009, and an additional \$2.0 billion

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that was released to the three tiers of government last weekend. (COMMENT. The \$10 billion that has been released so far this year represents five percent of GDP. END COMMENT.)

16. (SBU) Mordi added that the GON's amnesty program in the Niger Delta has allowed oil production to increase from 1.6 million barrels per day last summer to 1.8 million barrels per day today. This is a welcome improvement, but it still falls short of the 2.29 million barrels per day projection used in the 2009 government budget. (COMMENT. ExxonMobil MD Mark Ward told the Embassy on September 24 that production had recovered to 1.7 million barrels per day. END COMMENT.)

IMPACT OF THE CBN BANK AUDITS - CREDIT VERSUS INFRASTRUCTURE

17. (SBU) Mordi acknowledged that the CBN had used a softer approach with the recent announcement of the results for second round, having learned that there were negative macroeconomic consequences as a result of its more aggressive approach with the first round. "We are still learning," he said. The most immediate negative consequence was the reduction in bank credit that occurred after the commercial banks were forced to make provisions for non-performing loans and increase their reserve margins.

18. (SBU) Asked if the CBN had been able to measure the negative short-term impact of the audits or project the potential positive medium-term impact on GDP growth, Mordi said there had been a negative impact on credit, but it was too difficult to separate the impact of the lack of credit from other factors, such as infrastructure, on GDP growth. He explained that credit was only the fifth most important obstacle to investment, according to a recent CBN study. The other factors included power, roads and water. "We know it is important," he said, "we can't quantify it."

CORPORATE GOOD WILL

19. (SBU) Mordi expressed appreciation for the many years of close cooperation between the CBN and the USG. He welcomed further contact, encouraged the Embassy to make use of its reports which are posted on its website (www.cenbank.org), and apologized for the fact that the CBN no longer mails out hard copies of its reports. Mordi and his colleagues agreed to get together again in the near future to discuss the second and third-round impacts of the global economic crisis on sub-Saharan Africa.

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